

Policy III / Determination of cost of Un-finished minimum work programme/ 2007

Policy for determination of cost of unfinished Minimum Work Programme/ committed work programme for Exploration Blocks under Pre-NELP and NELP Contracts

The Government has signed various Production Sharing Contracts (PSC) during pre-NELP and NELP rounds which provide a commitment on the part of contractor to carry out minimum work programme (MWP), as specified in various exploration phases. The PSCs signed till NELP V envisage three (3) exploration phases and those signed under NELP VI consist of two exploration phases. The work programme bid by the companies is stipulated as committed work programme in each of the exploration phases of the respective PSCs. Under NELP-VI PSCs, the committed work programme also includes mandatory work programme in addition to the work programme bid by the contractor.

2. The specific duration of each of the exploration phases is provided in the PSCs. For onland and shallow water blocks, the maximum duration of exploration phases is 3 years, 2 years and 2 years for phase I, II and III respectively with the total period not to exceed 7 years. In case of deepwater and frontier area blocks, generally, the duration of phases is 4 years, 2 years and 2 years respectively with the total period not exceeding 8 years. Under NELP-VI PSCs, the exploration period is divided into two exploration phases of 4 years and 3 years respectively in case of onland and shallow water blocks and 5 years and 3 years respectively in case of deepwater and frontier area blocks. However, the duration of these phases is subject to any extension granted by Government pursuant to the provisions of the PSCs or as per the extension policy formulated by the Government.

3. The PSCs generally have an extension clause which provides an extension of exploration phase by 6 months with set-off from the next exploration phase, with the approval of Management Committee or the Government as the case may be, to complete MWP. It also provides for an extension of 6 months to carry out additional exploration programme. Moreover Contractors have been seeking extension in exploration phases

beyond the timelines specified in the PSCs which are being governed by the extension policy approved by the government.

4. In case the contractors do not fulfill the minimum work programme/committed work programme within the stipulated period, they are required to pay money for the un-finished minimum work programme , if any, to the Government and while determining the said amount, it is provided under the PSC that all available relevant information including the budget and modern oil field and petroleum industry practices are to be taken into account.

5. It has been observed that recently few contractors have relinquished Blocks by depositing the money towards un-finished work programme with the government. The amount has been calculated and paid by contractor based on certain assumptions about drilling depth; cost calculations based on dry well principle; drilling rates on day rate basis (as different from metre rate basis) drawn from running contracts of drilling and services etc. It is also observed that these assumptions are vulnerable to different interpretation as per PSC provisions. Since large stakes of the Government are involved, a transparent and consistent policy has been framed by the government for determination of amounts towards unfinished work programme in line with the PSC provisions. Besides, the policy envisages that the amount determined should be such so as not to penalize the contractor and at the same time it must act as a deterrent for contractors in order to ensure that they complete its minimum work commitments.

6. With above objectives, the following policy has been framed which will be followed by contractor parties while determining the amount of un-finished work programme and depositing the same with the government:

- (i) The cost of unfinished Work Programme relating to an exploratory well will be determined on dry well principle.
- (ii) The well depth committed by companies under minimum work programme (MWP) will be considered for purposes of computing the cost of un-finished well as this has been the criterion for evaluating the bids and award of the blocks.
- (iii) Well cost will be calculated by computing the number of days required for drilling various stages as per the well construction / casing

policy. The Geo-Technical order of the well and data of related wells will be taken into consideration for estimation of drilling time.

- (iv) The well design for unfinished wells will be similar to the wells drilled in the same Block. If no wells are drilled in the same Block, the well design will be similar to wells in neighboring blocks.
- (v) The day rates will be considered from the valid running contracts for Rigs, Services and Consumables. DGH will be maintaining the cost data for each of the exploration activities, separately for different areas/regions based on the current prevailing market conditions, which will be revised every six months with the approval of the Government. In case the computed rates of the un-finished work programme by the contractor are lower than the cost data bank maintained by DGH, the amount towards un-finished work programme will be recovered from Companies on basis of cost data of DGH.
- (vi) In case the contractor uses captive rigs and services for its operations, the amount of un-finished work programme will be determined on basis of prevailing market rates in the same area/basin and DGH will verify the amount with the figures of cost data maintained for each area/basin.
- (vii) Cost of each activity of un-finished work programme will be computed as per format given in Appendix-H of model PSC.
- (viii) 2-D & 3-D seismic costs will be computed based on prevailing rates in the area for acquisition, processing and interpretation and will not be less than the cost data of DGH .
- (ix) The competent authority to approve the final amount toward un-finished work programme will be the Government based on the proposal received from DGH.
- (x) In blocks, where provisional payments have already been made by the contractors to the Government, the amounts for unfinished work programme will be calculated and finalized in accordance with this

policy and the contractors will make the balance payments, if any, to the Government within a period of 15 days from notification of the amounts so determined expeditiously.

- (xi) Any consequential issue, arising out of the implementation of this policy, will be decided by the Ministry of Petroleum & Natural Gas.